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ABSTRACT

This report describes how colleges and universities in the Not-for-Profit sector can bridge the strategic management research gap by applying competitive analysis in the strategic planning process. This business analysis tool can be used to assist colleges and universities, just as it assists businesses, in understanding the competitive forces facing colleges. This methodology can also aid in the development of a strategic plan for adapting to these forces. The five major competitive forces, identified by Porter (1980), that affect any industry can also be applied to higher education and should be considered in strategic planning. These forces are: rivalry among current competitors; the threat of new entrants; the threat of substitute products; and the bargaining power of suppliers and buyers. Each competitive force is discussed within the context of how it exists in today's college and university competitive environment, and of its significance in the school's planning process. Contains 28 references. (GLR)

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# STRUCTURAL ANALYSIS OF COMPETITIVE FORCES IN HIGHER EDUCATION INDUSTRY: A CONCEPTUAL FRAMEWORK*

by

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# STRUCTURAL ANALYSIS OF COMPETITIVE FORCES IN HIGHER EDUCATION INDUSTRY: A CONCEPTUAL FRAMEWORK


## Abstract

Competitive analysis provides a framework to analyze an industry and determine the position of a company within that industry. The competitive position of a company largely depends on two factors: first, the number of firms in the industry and second, the type of products or services they provide to customers, i.e., homogeneous or heterogeneous products.

Porter (1980) has identified five major competitive forces that affect a given industry: rivalry among current competitors, threat of new entrants, threat of substitute products, and bargaining power of suppliers and buyers (see also Porter, 1985). This paper applies these five major competitive forces to analyze the strategic planning processes in the higher education industry, specifically examining colleges and universities within the context of Not-for-Profit (NFP) organizations. The paper examines the role competitive strategic plans can play in improving organizational performance and their ability to adapt to changing environmental conditions.

# STRUCTURAL ANALYSIS OF COMPETITIVE FORCES IN HIGHER EDUCATION INDUSTRY: A CONCEPTUAL FRAMEWORK

## Introduction: Research Objectives

Beginning in the 1960's, the number of service-oriented organizations have increased while the agricultural and manufacturing sectors have declined. The service sector, particularly the Not-for-Profit (NFP) sector, including health, education, government regulatory agencies, local, state and federal government agencies, grew at a higher rate than the private for-profit sector. The NFP sector today accounts for almost half of the Gross Domestic Product (GDP) and employment in the United States.

The increasing importance of the NFP sector in the national economy has attracted research in the field of strategic management. Strategic management research has began to study the strategic planning and implementation processes in the NFP sector. The research has focused on identifying the planning models and techniques used in the private for-profit sector to elucidate the strategic planning processes in the NFP sector.

The research objective of this paper is to bridge the strategic management research gap in the NFP sector by applying the competitive industry analysis framework to understand the strategic planning processes in the higher education industry among colleges and universities. To

provide a better understanding of the strategic planning processes in colleges and universities, the paper briefly examines the strategic planning processes of colleges and universities using Porter's (1980) competitive strategy framework (see also Porter, 1985). Five forces driving competition within the higher education industry are examined: rivalry among current competitors, threat of new entrants, threat of substitute products, bargaining power of suppliers, and bargaining power of customers.

The strategic planning process has enabled colleges and universities to realize that they are in the business of providing services in a highly competitive environment. As such, it is essential to understand the competitive forces that drive higher education so the industry can develop long-term plans to address their competition more effectively.

## Colleges and Universities as Institutional Not-for-Profit (NFP) Organizations

(Insert Table 1 about here)

Wortman (1979) has provided three typologies of NFP organizations: public, third sector and institutional organizations based on their mission, funding sources and management characteristics (see table 1). Of the three categories of NFP organizations, colleges and universities, are classified as institutional NFP organizations characterized by well established and organized management systems that closely resemble for-profit organizations (Wortman, 1979 and 1983). They have similar organizational

structures that encompass various functional areas of management, governing board of directors and offer services(s) or product(s) to the public for which customers pay fees (see table 2). The extent to which institutional NFP organizations achieve their social and economic objectives depend on the quality of their management systems and the leadership styles they have adopted.

(Insert Table 2 about here)

Institutional NFP organizations are increasingly emphasizing strategic planning systems and efficient and effective management control systems and program administration techniques (see Anthony and Herzlinger, 1980; Nutt, 1984; Steiner, Miner and Gray, 1982; and Wortman, 1979 and 1983). The management literature suggests that modern institutional NFP organizations are professionally managed much like for-profit business organizations where strategic planning is used to formulate long-term organizational goals and objectives and to anticipate changes in their competitive environment.

## The Strategic Planning Processes in Colleges and Universities

The strategic planning processes in colleges and universities is adaptive to the extent that they formulate overall/broad organizational goals to respond to anticipated or perceived environmental changes (see figure 1). The adaptive strategy emphasizes the importance of products,

markets and changes in product styles and quality and marketing techniques to retain existing customers while attracting new clientele. The strategy allows divisions to develop plans using guidelines provided by top management to meet the demands of their immediate environment. The main thrust of the organizational adaptive strategy, therefore, is to respond to planning discontinuities arising from incongruities between organizational resources and environmental demands (Chaffee, 1985:92).

(Insert Figure 1 about here)

Using the adaptive approach, colleges and universities continually assess external and internal conditions to make necessary functional/program changes to adapt to environmental demands. Once organizational objectives are formulated, they develop functional plans for marketing, finance and production to achieve those goals. In doing so, they attempt to match organizational strengths with opportunities offered by the environment. Organizations continually review their past and present performance to ascertain future requirements of the business environment.

The strategic planning processes in colleges and universities are similar to those taking place in for-profit business organizations since the process begins with an environmental analysis, including an analysis of the competitive environment, their relative position within the industry and the internal strengths and weaknesses of their

organizations (see figure 1). Development of an organizational mission statement is emphasized, and long-term organizational goals and priorities are formulated. Planning processes identify the environmental variables deemed critical to successful implementation of the strategic plan and establish linkages between planning and administration to ensure that resource allocation occurs in accordance with the planned objectives.

In general, strategic planning is an on-going process that involves assessment of the future, analysis of the external environment, evaluation of internal resources, determination of long-term objectives, development of alternative courses of action and the selection of the best possible alternatives to achieve stated objectives. The primary objective of the process is to establish major policy directions for the organization by developing competitive strategies to match opportunities and threats with organizational strengths and weaknesses, and to position products/services effectively among competitors (see Grant and King, 1982; Grant, 1988; Kotler, 1982; Porter, 1980 and 1985; Newman and Logan, 1981, Byars, 1984; Steiner, Miner and Gray, 1982; Schendel and Hofer, 1979).

## Structural Analysis of the Competitive Forces of the Higher Education Industry: Application to Colleges and Universities

Competitive analysis provides a framework to analyze an industry and determine the position of a company

within that industry. The competitive position of a company largely depends to two factors: first, the number of firms in that industry, and second, the type of products or services they provide to customers - homogeneous or heterogeneous products (Porter, 1980 and 1985).

Most organizations provide more than one product or service and they operate in more than one industry. For such companies, it is necessary to have a separate analysis for each industry. This paper focuses on the higher education industry, and in particular, on colleges and universities (see table 3). The analysis centers primarily on understanding the competitive forces facing the higher education industry.

(Insert Table 3 about here)

The essence of competitive analysis involves understanding a firm's environment, including its economic, political, legal and social environment (Porter, 1980). Competitive conditions within an industry will affect the degree to which product demand and supply change over time. In industries dominated by a small number of large companies, firms can enjoy a relatively stable product demand since they control the market. In contrast, companies in industries with a relatively large number of small firms face an unstable market position and continuous pressure to improve products and services (Newman and Logan, 1981). Since the competitive position of a particular company largely depends

on its industry structure, it is important for an organization to identify the key structural variables critical to organizational success.

(Insert Figure 2 about here)

Porter (1980) has identified five major competitive forces: rivalry among current competitors, threat of new entrants, threat of substitute products, and bargaining power of suppliers and buyers (see figure 2). The ultimate profit potential in an industry depends on the collective effect of these five forces. To be successful, i.e., profitable, an organization must develop a strategy that will effectively address the competitive forces which characterize its industry.

These competitive forces identified by Porter have affected the higher education industry- colleges and universities. Colleges and universities are now operating in a highly competitive environment, competing "with one another for financial resources and for high caliber staff and students" (Doyle and Lynch, 1979:604. See also Huff and Ramney, 1981). An adequate university response to this competitive environment must consider a wide range of factors, including the social environment, economic and demographic trends and government planning (Mayhew, 1980:177). As in any business organization, competition has become a significant strategic element as institutions of higher learning are beginning to examine potential new

markets, are readying themselves to enter new markets and are re-orienting their services to their existing markets.

A. Threat of Entry

"New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources" (Porter, 1980:7). the number of new entrants into an industry depends on strength of existing barriers to entry, combined with the reaction of existing competitors to new entrants. Porter (1980) has identified several sources of barriers to entry, including economies of scale, product differentiation, capital requirements, and governmental policy.

Economies of scale refers to the decline in unit cost of production as volume increases. A firm enjoying economies of scale can discourage new entrants by reducing the prices of its goods and services, thereby making the industry less attractive for new entrants. Major state and private colleges and universities have large scale economies in research, programs, educational classrooms and faculty, making competition costly for new entrants.

Established firms in a competitive industry attempt to differentiate their products by building brand identification and customer loyalty through marketing. Major state colleges and universities and the Ivy League schools have established reputations for excellence in certain programs and have been able to attract a continuous supply of

customers/students. Several have introduced new programs in existing schools, while others have established new schools/colleges to attract more students to their campuses.

Major state and private colleges and universities with substantial resources have succeeded in differentiating their educational services from other competitors who are not in the business of higher education. Their established services, highly differentiated and reputable programs, faculty reputation and alumni support have made them superior to many colleges and universities, particularly the smaller four year liberal arts colleges, making them relatively less vulnerable from new entrants into the higher education industry.

However, since the majority of colleges do not have the resources necessary to establish specialized, reputable programs, they provide a wide array of undifferentiated services. For these organizations, the potential threat of new entrants from non-traditional educational institutions can be substantial.

At present, a wide variety of institutions, in additions to colleges and universities, provide higher educational services. While colleges and universities continue to be the major providers of higher education, in recent years there has been considerable growth of private professional and trade schools. Their emphasis on specialized education, e.g. work related/centered education, has attracted the already employed professional looking for a

career change or a promotion as well as the unemployed individual who hopes to obtain a marketable skill.

Colleges and universities need to take into account non-traditional school competitors who are attracting students from the same pool of potential customers. In addition to professional/technical schools, the competitors to higher education include the training and business resources development divisions of major corporations and CPA firms who provide in-service or on-the-job training for corporate employees, as well as consulting firms who provide business/economic studies/advice to corporate clients. Government institutions such as the military also provide training which puts them in direct competition with colleges and universities (Schofield, 1983:25).

Given the large number of institutions providing professional education, colleges and universities are under considerable pressure to broaden their competitive environment to compete effectively. They have attempted to develop a broader definition of their competitive market environment to include non-traditional schools and other corporate and government training programs whose primary business may not be education, but who provide educational services that directly compete with colleges and universities. These organizations are also providing educationally related services such as consulting, research, short-term management and technical training programs, on-the-job training and corporate development programs. Since

universities are already providing many of these services, they could easily expand their outside the classroom offerings by tailoring them to the needs of particular client groups. By broadening services, universities can begin to compete effectively with non-traditional institutions in providing educationally related services.

B. Rivalry Among Current Competitors

> "Rivalry among existing competitors takes the familiar form of jockeying for position-using tactics like price competition, advertising battles, product introductions, and increased customer service or warranties. Rivalry occurs because one or more competitors either feel the pressure or sees the opportunity to improve position" (Porter, 1980:17).

The nature and extent of jockeying among current competitors depends on the number of firms in an industry. In a competitive industry, which includes a large number of firms, established firms compete by introducing new or improved products, advertising and differentiating their products. Major state and private colleges and universities have the resources to improve existing offerings and introduce new programs. They can offer students access to current technology in electronics, computers and communication, can advertise through several communications media and can provide specialized customer services. They have reputations for excellence in certain fields of study and attract top level students in those fields, thereby exhibiting product differentiation and customer loyalty.

On the other hand, the smaller state school, the church affiliated institution and the liberal arts college comprise second level institutions without the resources to compete with the major colleges and universities. They cannot afford to invest in research and development and introduce new programs when necessary. Many times they lack the managerial skills and structural capabilities to meet the current competition.

Rivalry among current competitors in the higher education industry for quality faculty, students and resources can take several different forms depending on the type and level of the institution. The major universities have substantial resources, specialized programs and attract high caliber students interested in graduate and professional education. The second level institutions are primarily teaching institutions with limited resources and attract students oriented towards careers in lower and middle management in industry and government. The second level institutions generally include the community colleges, four year liberal arts schools and state colleges and encompass schools of varying size. Because of the increase in their numbers and because they tend to offer undifferentiated services, they are competing aggressively to attract students. They are also facing stiff competition from non-traditional educational institutions as the barriers for entry into the work-related education field are not substantial. It is very easy for some non-traditional

institutions to diversify their programs into related services, e.g. CPA firms into consulting, providing career oriented education, and in-service training.

However, since education is its primary service, the smaller college has better education resources - physical facilities, technical and human resources - compared to the non-traditional educational institutions. As a result, they have a better competitive position relative to other institutions in the business of higher education. To build on that competitive edge, they need to communicate the superior quality of their education to the alternatives offered by other institutions (Kotler, 1982: 106-107). Marketing is one method of providing customers with information on services available through the smaller colleges.

Marketing, including advertising, pricing and servicing, is an effective tool to strengthen competitive position. Yet a major strategic problem facing colleges and universities is their lack of market orientation. Developing courses and programs in response to consumer demand is still considered by some in higher education to be in conflict with the overall philosophy of a college education. Courses are often established based on "what academics feel `should' be offered rather than where there is clear evidence of demand" (Doyle and Lynch, 1979:603). There appears to be little realization that colleges and universities are in the business of providing higher education, and if they fail to

meet changing demands, like any business in a competitive environment, they may be forced to close.

To compete effectively, it is becoming increasingly necessary for colleges and universities to conduct market research to ascertain customer demand patterns so that appropriate courses/programs can be designed to meet those demands. Such an approach requires colleges and universities to develop a broader perspective on the educational business which recognizes the competitive nature of higher education and the need for continuous adaptation to meet the competition.

C. Pressure from Substitute Products

Competitive industries produce similar products that tend to be close substitutes for one another. Availability of substitutes implies that the demand for that particular product is elastic and sensitive to changes in price and quality (Newman and Logan, 1981). The existence of substitute products reduces profitability since firms must lower prices to attract and/or retain customers. "The more attractive the price-performance alternative offered by substitutes, the firmer the lid on industry profits" (Porter, 1980:23).

Colleges and universities provide a wide variety of educational programs - graduate, professional and undergraduate programs. While the quality of these programs can vary considerably from one college to another, it is

difficult to describe college programs as substitute products.

There is no generally acceptable substitute for college education since it is required for virtually all entry level professional positions.

The closest substitute for a college education is on-the-job training. Since there are a limited number of such openings available in industry and government, on-the-job training cannot reduce significantly the number of applicants seeking college education. Career opportunities in post-industrial society largely depend on the possession of technical and managerial education, an education acquired almost exclusively from formal education.

The availability of employment opportunities for high school graduates can also be a potential substitute for college education in the short-term. However, limited employment opportunities and career prospects for high school graduates have increased the demand for college education.

A college education does incur opportunity costs in the form of lost income and on-the-job experience. However, since the potential benefits of enhanced future income, better career prospects and social status are expected to be greater than the costs incurred, the demand for college education is not thereby reduced. Since there are no close substitutes for college education able to provide an individual with formal education, the demand for college

education to provide technical training, managerial skills, and cultural background has not diminished.

What has affected the demand for higher education in recent years is the marked decline in the college age population. Given current demographic trends, particularly the decline of the college age population and the increase in middle age population/career professionals, many colleges and universities have excess capacity and encounter difficulties in filling some classes. In addition, students have shifted their interests from social sciences and the humanities to business, science and technology (Thomas, 1980:74-75). Finally, government support for higher education is declining substantially and has forced universities to look to individual and institutional donors for increased support. Yet, the dominance of outside funding sources may result in favoring one specialization over another and may cause an imbalance in the allocation of financial resources among various educational programs (Hatten, 1982:100).

These changes are putting pressure on universities to re-allocate their resources to meet the changing demands of students. In response, colleges have become increasingly market oriented both to retain existing students and to attract new students.

D. Bargaining Power of Customers

> "Buyers compete with the industry by forcing down prices, bargaining for higher quality or more

> services, and playing competitors against each other - all at the expense of industry profitability. The power of each of the industry's important buyer groups depends on a number of characteristics of its market situation and on the relative importance of its purchases from the industry compared with its overall business" (Porter, 1980:24).

If buyers are concentrated into smaller groups or if they purchase in larger volume relative to the number of sellers, they can exercise power over suppliers as occurs in primary industries such as agriculture and chemicals. In the higher education industry, customers are individuals who are highly unorganized, diverse and undifferentiated. Their lack of organization prevents them from putting pressure on colleges to lower prices/tuition or from demanding improved services. As individual customers, they can choose which college to attend and programs in which they wish to enroll. Since there are a large number of colleges to choose from, students can be highly selective.

The bargaining power of customers in the higher education industry today is significant, not because customers are organized and have the power to influence the policy decisions of college administrators, but because there are a large number of colleges from which customers can choose. In short, the demand for higher education is lower than the existing supply.

During the late 1950's and throughout the 1960's, colleges and universities expanded their services in response to the increased number of college students brought about by the baby boom. New buildings were constructed, new faculty

members were hired and granted tenure and federal support for higher education increased. In expanding higher education services, no long range examination of demographic trends beyond the immediate baby boom demand took place. The 1960's and 1970's saw a number of demographic changes occurring in the United States. These changes included a decline in the birth rate, an increase in the median age of first marriage, and a major population shift from the north to the south for employment opportunities (Jain and Singhvi, 1977; Moore and Charach, 1980:109; Kotler, 1982:85 and Naisbitt, 1982). The decline in the birthrate made itself felt during the 1970's when colleges experienced declines in enrollment. It has been predicted that there will be a continual decline in the number of high school graduates over the next decade (Thomas, 1980). Among other difficulties it can present in assuring a quality education (Cyert, 1978), that decline is likely to contribute to excess capacity in higher education (Doyle and Lynch, 1979:604).

Universities are now finding it extremely difficult to fill classrooms in certain subject areas such as liberal arts. They are aggressively recruiting to attract students. However, since the number of students available to fill existing classroom capacity is limited, students can be highly selective, both as to the university they wish to attend and as to the courses they plan to take. Students are thus bargaining in a buyers market and can afford to be highly selective when choosing a college.

Since the bargaining power of students is strong, colleges and universities are competing with one another to attract students. It has been estimated that the average senior high school student receives at least twenty college brochures, all of which promise to provide financial aid, quality education and career placement assistance. On-campus visits by admission officers and alumni have increased on high school campuses. College admission officers and recruiters have become the marketing agents/representatives for colleges trying to attract as many students as possible to their campuses.

Once a student has been admitted, universities are now beginning to emphasize a high retention rate. The underlying concept is to treat students as "... customers who should be encouraged not to take their business elsewhere" (Alexander, 1982:993). The focus on retention has begun to shift planning interest from the short term annual admission figures to the longer time-frame considered by strategic planning, namely the period of four to five years normally required for a student to graduate. The need to retain students has added a long term strategic dimension to higher education planning procedures.

As a result, colleges and universities concerned with assuring high retention levels are instituting retention programs. A retention program is a long range plan designed to retain students once they have matriculated until they have graduated. Mayhew argues that "... long term

institutional health will better be ensured by concentrating on that clientele than by searching for many new clientele" (1980:300). Retention has become as important as admission since a high attrition rate contributes to a loss in tuition revenue, a principal source of funds for higher education.

Colleges and universities are now keenly aware that student dissatisfaction may well result in higher attrition rates. To ascertain student preferences, admissions or counselling offices are conducting exit interviews with students leaving before graduation. Most cited reasons for leaving include poor grades, lack of progress towards a degree, impersonal campus and dormitory atmosphere, financial and personal problems and dissatisfaction with the teaching ability of some professors (Alexander, 1982:995-996).

Modifying college programs to alleviate these complaints requires the allocation of resources for increased financial aid, improvement of on-campus dormitory facilities, increased staff in student health and psychological counselling centers, better cafeteria/food services and more relevant job placement programs. Colleges and universities instituting such programs are more likely to attract new students and to retain existing students than those who fail to adapt to changes in student preferences. Undertaking these changes requires using the marketing approach to education in which students, now considered customers, play an important role in shaping university policies.

When LaRoche College, a small liberal arts college in Pittsburgh, experienced a decline in enrollment, it instituted a planning process to make strategic choices in terms of the products it offered and in "... an equally broad concept of customers." For its preliminary analysis, the college defined its product simply as `education' and its customers as "anyone who needs or desires education now or in the future" (Schofield, 1983:24). After conducting market surveys, the college revised its programs in business, nursing and other career related programs and integrated computer literacy into its training programs. Within three years after implementation of its strategic plans, both enrollment and corporate donations increased.

Cuyahoga Community College, a small liberal arts college in the greater Cleveland area, implemented a strategic planning process that helped reverse its declining enrollment. The CCC plan, defined as the Strategic Education Planning Process (SEPP), introduced an environmental scanning system to monitor changes in the environment, a resource audit for personnel and management systems, service delivery technologies and financing procedures. It also initiated an implementation strategy to accomplish the CCC objectives of improved instructional programs, increased student recruitment, institution of student retention programs and development of career oriented programs to meet the needs of new students, staff and employed community residents. Implementation of the strategic plan resulted in the

development of strong academic programs which in turn contributed to reaccreditation of the school for ten years, cost reduction and increased enrollment (Eadie, Ellison and Brown, 1982).

These two cases demonstrate the use of strategic planning in directing universities to examine the demand for higher education services and its subsequent utility in implementing long range plans to address those demands.

Through the implementation to retention programs, strategic educational planning has begun to incorporate student demands in formulating the goals and objectives of colleges and universities. However, retention programs represent only one administrative concern where strategic planning can be applied in institutions of higher learning.

E. Bargaining Power of Suppliers

The bargaining power of suppliers depends on the number of suppliers in an industry. When there are few suppliers, they are much more likely to enforce a higher price structure, reduce the quality of goods and services and stipulate terms of delivery. If there are many suppliers, each supplier has less bargaining power in influencing overall industry profitability (Porter, 1980:27-29).

The suppliers of goods and services to higher education are many and diverse (see Figure 2). They include, among others, faculty, professional staff and administrators, text-book publishers and producers of teaching and related

materials such as computers, desks and paper products. Since there are numerous book publishers as well as producers of teaching aid materials, they have little individual bargaining power with colleges and universities. Rather, prices for books and teaching materials are determined on a competitive basis. Colleges can purchase their supplies from those companies offering the best price and the most favorable delivery terms. If a company fails to fulfill its contract obligations, it is not difficult or costly for the school to switch to another supplier.

To assure a longer-term relationship with a university, some suppliers are contributing materials and/or services at cost to initiate a program which will continue to use the products provided by that supplier. For example, IBM and ITT provide free educational support facilities such as computers or agree to install equipment or other facilities at a reduced price to support a particular department or school. Some colleges agree to establish joint programs with a supplier who agrees in turn to provide the necessary teaching support facilities.

An important supplier group exerting pressure on higher education is labor. There are critical shortages of skilled labor in the fields of engineering, computer technology and business management. Unionization of university professors and professional staff, e.g., librarians, has also strengthened the bargaining power of

labor. Unions lobby for higher salaries, better fringe benefits, security of tenure and academic freedom.

The power of labor is significant both because it is organized and because skilled labor is scarce in high demand, specialized fields. College administrators are now consulting with union leaders when making college governance decisions.

However, there are indications that the bargaining power of labor may decline as university administrators legally challenge the existence of faculty unions as faculty participate in university management. As increasing numbers of professionals begin teaching careers, the competition for faculty teaching appointments has increased. Given the increased competition, colleges are now in a better bargaining position when selecting the best candidates for teaching, administrative and professional staff positions.

Conclusion

The principal objective of strategic planning is the formulation of long term objectives, generation of alternatives and the selection of strategies to meet those objectives. Strategic planning in modern NFP's is dynamic, forward looking, oriented to long term strategies and adapts to changes in the external environment. Colleges and universities use strategic planning to assess changes in the external environment, determine program priorities in response to those changes and allocate existing resources to

achieve long term objectives. Strategic planning addresses issues such as the rate of growth, determination of long term program resources and the development of new or improved programs to meet client demands.

Even though the success of colleges and universities depends on how effectively they can adapt the management systems of business organizations, several philosophical differences exist between the two sectors. An important difference is the relative weight given to economic and social factors by each type of organization. The formulation of strategic plans in corporations is generally more analytical, with economic and technological considerations taking precedence over other factors (Schendell and Hofer, 1978). In the NFP sector, as with colleges and universities, social and political factors play a significant role in the strategy formulation process, with economic factors given less weight (MacMillan, 1978).

The importance given to economic factors in the strategy formulation process is a major difference between the private and NFP sectors. Since most institutional NFP's, including colleges and universities, are service organizations, their principal objective is to provide human services not available in the private sector. Their services are therefore targeted to meet basic needs such as health, education, housing (shelter) and welfare, needs defined by social and humanitarian concerns and values. The question that must be addressed is how basic educational services can

be provided to society in a socially responsible yet cost effective manner.

In view of recent reductions in government funding, colleges and universities have begun to emphasize the need to provide cost effective services. As a result, they now consider economic/cost factors as well as social and political variables when formulating strategic plans.

Current changes in the educational environment have increased the degree of competition among colleges and universities for financial resources, faculty, professional staff and students. An application of Porter's (1980) competitive analysis framework indicates that higher educational institutions, like any other business organization, are affected by five contending forces that influence industry competition. The threat of new entrants, rivalry among current competitors, threats of substitute products/services and the bargaining power of buyers/customers and suppliers are the five major forces driving industry competition. It is important that an organization identify and evaluate the key structural characteristic features critical to its success. Success in the higher education industry depends on the ability to understand the competitive environment, to formulate and implement strategic plans which enable an institution to retain a competitive position in the education market.

Competitive strategic planning can assist colleges to develop long range academic programs oriented to the job

market, evaluate viability of existing programs, allocate resources among competing programs, develop future enrollment projections and conduct market surveys and customer segmentation studies. It can assist colleges to develop competitive adaptive strategies to meet the demands of an increasingly competitive higher education environment.

Adaptive strategy can be defined as "anticipating shifts in the factors underlying the forces and responding to them, thereby exploiting change by choosing strategy appropriate to the new competitive balance before rivals recognize it (Porter, 1980:30). The definition highlights the importance of the external environment in strategic planning.

Using the adaptive approach, organizations continually assess external conditions to make necessary functional/ program changes to adapt to environmental demands. The approach emphasizes the importance of products, markets and changes in style, marketing and product quality to maintain existing customers while attracting new clientele. The strategy allows divisions to develop plans according to top management guidelines to meet the demands of their immediate environment.

The main thrust of the organizational adaptive strategy, therefore, is to respond to "... some discontinuity or lack of fit that arises between the organization and its environment (Chaffee, 1985:92).

The adaptive approach recognizes that managers have substantial influence in choosing strategies to assure

organizational viability. While recognizing the impact of the external environment in strategic choices, the approach places primary emphasis on the decisions and actions of managers as the single most important factor in organizational adaptation.

An organization can adapt effectively to the environment if top management has the power to react immediately and institute changes as they become necessary. Success in higher education today depends on how well colleges can formulate and implement strategic planning and control systems in a highly competitive, constantly changing educational environment.

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**TABLES AND FIGURES**

Table 1:

A Typology of Different Types of Not-for-Profit Organizations

1. Public organizations

   A. Executive agencies and departments (other than urban and environmental)
      Federal, state and local governments
      Military

   B. Urban organizations

      Fire
      Police and law enforcement
      Public housing authorities
      Social services and welfare
      Transportation
      Human resources (manpower)

   C. Environmental organizations

      Conservation
      Water resources
      Air resources
      Energy resources

II. Third sector organizations

   Public-private agencies (COMSAT, AMTRAK, etc.)
   Not-for-profit consultants
   Research institutes
   Consumer cooperatives

III. Institutional organization

   Education
   Hospitals and health care
   Trade unions
   Political parties
   Churches
   Libraries
   Performing arts
   Voluntary associations
   Organized charities

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Source: Wortman, 1979:354

Table 2:

Management Similarities Between Business (Profit) and Institutional NFP Organizations

1. Both have an articulated organizational mission (or purpose/goal).

2. Both exhibit similar organizational structures, ranging from top management levels (CEO or president) to lower level employees.

3. Both have boards of directors who make major policy decisions.

4. Each has an identifiable group of customers.

5. Institutional NFP organizations provide services, such as health care and education, which is conceptually similar to the product of a business organization.

Source: Adapted from Steiner, Miner and Gray, 1982.

Table 3:

EDUCATION INDUSTRY:
A CLASSIFICATION SCHEME

I. Grade Schools

II. Elementary Schools

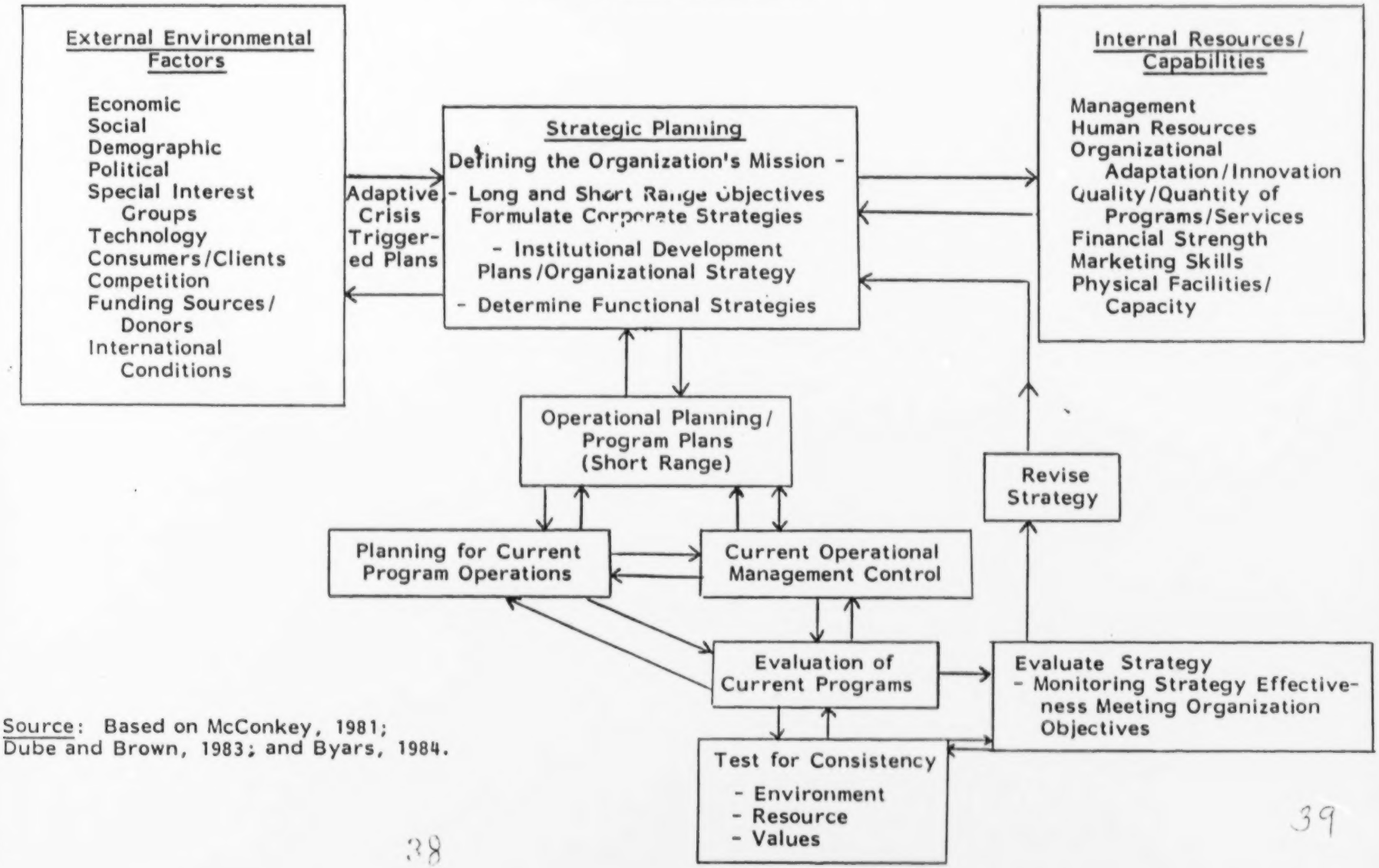
III. Secondary Schools

IV. Colleges and Universities

- A. Community Colleges
- B. Four year Colleges
- C. Universities with Post-Graduate Programs
- D. Professional Schools/Specialized Colleges

Figure 1:

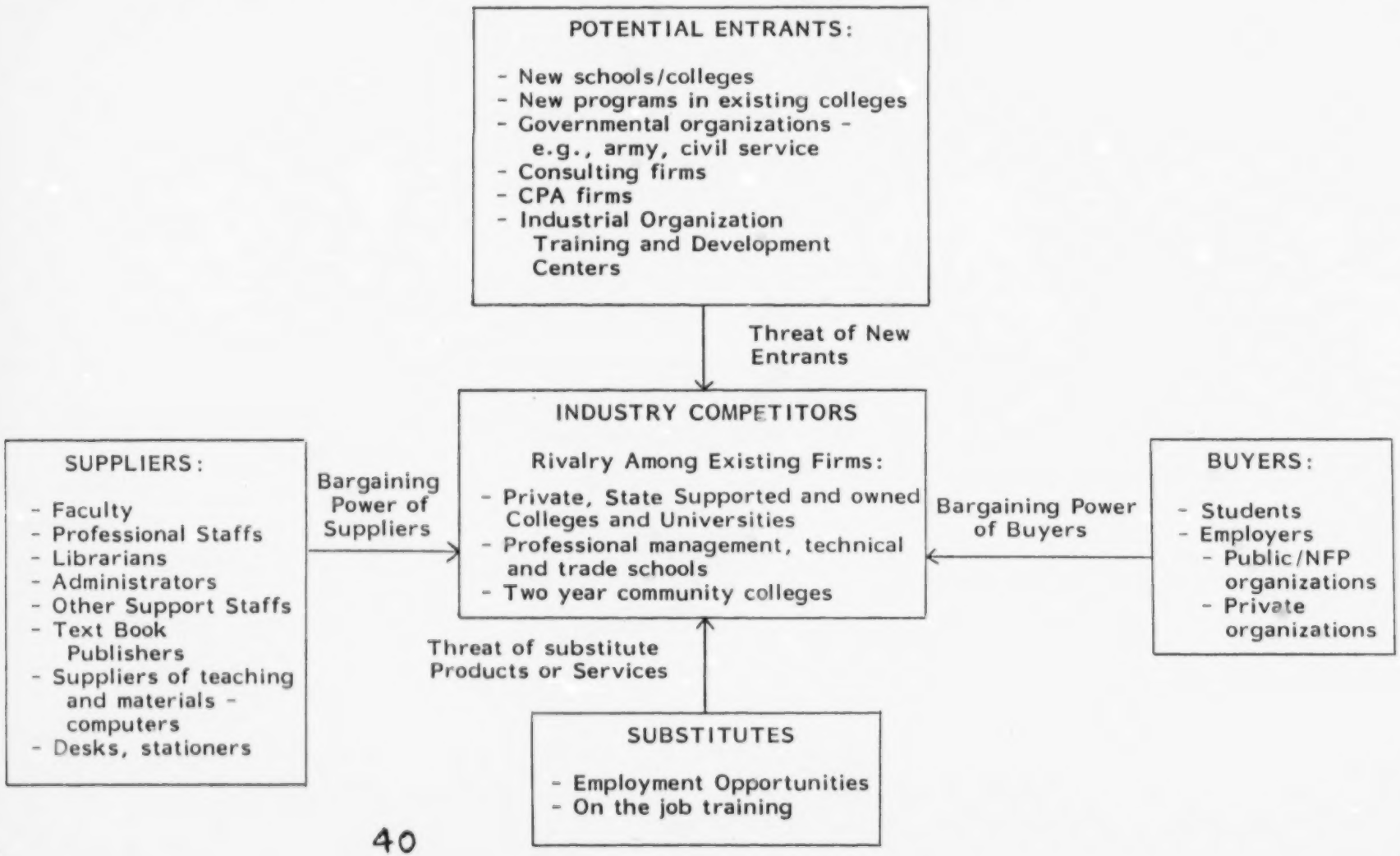
The Strategic Planning Process for Modern Institutional Not-for-Profit Organizations
(Colleges and Universities)




Source: Based on McConkey, 1981; Dube and Brown, 1983; and Byars, 1984.

Figure 2:

Forces Driving Higher Education Industry Competition




Source: Adapted from Porter, 1980:4